

This letter provides general information regarding the Manufacturing Machinery and Equipment Exemption found at 86 Ill. Adm. Code 130.330. (This is a GIL.)

August 10, 2006

Dear Xxxxx:

This letter is in response to your letter dated August 29, 2005, in which you request information. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at www.tax.illinois.gov to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

I am requesting an opinion on the subject of Manufacturing and Assembling sales tax exemption. The scenario represents a lumber company which sells siding wholesale to retailers.

The lumber used to achieve the goal of becoming siding goes through several stages.

1. The siding goes through a staining process, would the equipment and fuel used in the machinery be sales tax exempt in this portion of the manufacturing process?
2. The same question applies to the process for which the lumber is sawed into the shape and size required to be used considered siding. Does the sawing portion and the equipment used qualify for the manufacturing credit?

Your response to my questions will be appreciated.

DEPARTMENT'S RESPONSE:

We regret that we cannot provide you with a specific answer in the context of a General Information Letter. We hope the following general information regarding the Manufacturing Machinery and Equipment Exemption found at 86 Ill. Adm. Code 130.330 will be helpful.

In general, the Retailers' Occupation Tax does not apply to sales of machinery and equipment used primarily in the manufacturing or assembling of tangible personal property for wholesale or retail sale or lease. The manufacturing process is the production of articles of tangible personal property or assembling different articles of tangible personal property by procedures commonly regarded as manufacturing, processing, fabricating, or refining which changes some existing material or materials into a material with a different form, use or name. These changes must result from the process in question and be substantial and significant. See 86 Ill. Adm. Code 130.330(b)(2). See also, general information letters ST-95-0226 and ST-91-0770. The Department's regulations and general information letters are available on the Department's Internet website under the heading of "Laws/Regs/Rulings."

Please note that the exemption does not apply to "hand tools, supplies (such as rags, sweeping or cleaning compounds), coolants, lubricants, adhesives, or solvents, items of personal apparel (such as gloves, shoes, glasses, goggles, coveralls, aprons, masks, mask air filters, belts, harnesses, or holsters), coal, *fuel oil*, electricity, natural gas, artificial gas, steam, refrigerants or water", Section 130.330(c)(3) (emphasis added). Under Section 130.330(c)(3), consumable supplies such as fuel, grease, and lube oils sold to a manufacturer are not exempt from the tax imposed by the Retailers' Occupation Tax as qualifying manufacturing machinery or equipment.

The State of Illinois also provides a Manufacturer's Purchase Credit (MPC) in addition to the exemption for manufacturing machinery and equipment. See 86 Ill. Adm. Code 130.331. Purchasers of manufacturing machinery and equipment that qualifies for the manufacturing machinery and equipment exemption earn a credit in an amount equal to a fixed percentage of the tax which would have been incurred under the Use Tax Act or Service Use Tax Act. The credit may be used to satisfy Use Tax or Service Use Tax liability that is incurred on the purchase of production related tangible personal property that does not qualify for the manufacturing machinery and equipment exemption. See Section 130.331.

I hope this information is helpful. If you require additional information, please visit our website at www.tax.illinois.gov or contact the Department's Taxpayer Information Division at (217) 782-3336. If you are not under audit and you wish to obtain a binding PLR regarding your factual situation, please submit a request conforming to the requirements of 2 Ill. Adm. Code 1200.110 (b).

Very truly yours,

Edwin E. Boggess
Associate Counsel

EEB:msk